Political Speech and the Corporation

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Abstract

Corporations may engage in strategic political speech. This speech enables the corporations to differentiate on politics. Firms that differentiate on politics have an incentive to encourage political polarization. This effect is illustrated with a historical example involving the Ford Motor Company, and is used to explain an economic rationale for benefit corporations.

1 Introduction

Corporations engage in political speech.[1] They do so directly when their executives speak in the name of the firm against specific instances of legislation. They do so indirectly when they donate to political action committees or otherwise engage

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[1]For recent data, see Ottonello et al. (2024).

in activity with political implications. The extent to which this political speech is desirable is a matter of intense controversy.

The controversy regarding corporate political speech is tied to at least two important legal questions. First, to what extent should corporations be permitted to engage in political speech? In the controversial *Citizens United*[2] decision, the U.S. Supreme Court held that corporations enjoy free speech rights similar to those enjoyed by individuals, because corporations are associations of individuals.[3] Critics of this decision have argued that granting corporations the same speech rights as individuals would give too much power to plutocrats and business interests (see, for example, Hasen, 2016).[4]

Second, should corporate managers maximize shareholder value, as argued by Friedman (1970)? Critics of this idea argue that a narrow focus on maximizing shareholder value can lead managers to ignore externalities imposed on other stakeholders, and consequently make decisions that lower total social welfare (Magill et al., 2015). Instead, argue these critics, managers should also concern themselves with broader social objectives, including the welfare of employees, the environment, and of society as a whole. Proponents of the shareholder value approach, on the other hand, argue that a focus on shareholder value constrains managers from making self-interested decisions (Tirole, 2001). While acknowledging that managerial decisions can affect other stakeholders, they argue that the concerns of these other stakeholders are best protected through contract and regulation.

Rather than attempt to resolve this debate, this paper instead sheds light on a potentially serious problem: corporate political speech is (or at least can be) of a very different nature than individual political speech. The argument has two parts. First, firms may engage in political speech for the purpose of differentiating their products from those of a competitor. A political stance may make a brand more or less attractive to consumers, and this allows firms to raise prices for reasons first provided by d'Aspremont et al. (1979).[5]

Second, political polarization amplifies the effect of political differentiation, and consequently the profits of firms in politically differentiated industries are increasing in the level of political polarization. This implies that firms have an incentive to

[2] *Citizens United v. Federal Election Commission*, 558 U.S. 310 (2010).

[3] "The Court has thus rejected the argument that political speech of corporations or other associations should be treated differently under the First Amendment simply because such associations are not 'natural persons.'" *Citizens United*, at 343. See also Bopp and Phillips (2011) for arguments in favor of the decision. See also *Burwell v. Hobby Lobby Stores, Inc.*, 573 U.S. 682 (2014), which held that closely held for-profit corporations have free-exercise rights under the Religious Freedom Restoration Act.

[4] There is some evidence that the *Citizens United* decision has helped the electoral chances of Republican candidates, often understood to be a proxy for business interests (Klumpp et al., 2016; Abdul-Razzak et al., 2020), and that the stock market reacted favorably to the decision (Stratmann and Verret, 2015).

[5] This is analogous to strategic differentiation by politicians (see Gilmour, 1995; Dziuda and Loeper, 2016, 2018; Lee, 2022).

contribute to polarization. While each firm may have a relatively small impact on the overall level of polarization in society, the aggregate impact may be large in an economy where many industries are politically differentiated on a common dimension.

This insight suggests that the current debate on corporate political speech is not well framed. It may be that corporations are voluntary associations of individuals. But corporate speech does not (necessarily) reflect the views of these individuals, and arguments that conceive of corporate speech as derivative of individual speech ignore its distinct nature. For the same reason, this undercuts arguments based in concerns about plutocracy; as corporate speech may not reflect the views of corporate shareholders, it does not necessarily amplify the views of the wealthy to the detriment of those held by the less well off.[6]

This insight also raises questions about the role of corporate managers. That profit-maximizing firms may have incentives to contribute to political polarization is worrisome. Such incentives lead to a significant negative externality; it does not take a formal model to conclude that such polarization—understood loosely as the degree of political hatred in a society—can be harmful. Furthermore, this externality cannot be easily remedied through contract or regulation. At the same time, the main alternative to the shareholder maximization paradigm is one of "corporate social responsibility." Because (for reasons explained below) socially responsible behavior is often indistinguishable from political differentiation, a move away from the maximization of shareholder value may exacerbate this problem.

These insights have multiple implications for our understanding of corporate political speech. First, corporate political speech may be strategic rather than sincere; that is, a firm's political speech may be calculated to increase profits rather than to express sincerely held beliefs of its shareholders, directors, or officers. This can be true even though the speech may not relate to any direct interest of the corporation (e.g. supporting more favorable regulation) and even though the speech may be unpopular, as the effect depends on differentiation rather than on an increase in demand from customers who like the speech. Political branding can increase profits even if all customers dislike the brand; what is needed is only heterogeneity in the amount of the dislike.

Second, consumer boycotts of firms launched because of their political speech, or because of the private political speech of their founders or executives, can have the unintended effect of increasing the profits of the boycotted firm. Rather than deter, the threat of boycotts may encourage firms to act against the interests of the boycott organizers. This may explain why firm profits may not be harmed by consumer boycotts judged successful by other metrics, such as the number of boycotting

[6]Some empirical research suggests that there may not be a connection between shareholders' preferences and a firm's expressed political positions. Zytnick (2022) finds no relationship between mutual funding voting and the preferences of individual investors. Couvert (2020) finds that firms tend to adopt their mutual fund shareholders' preferred governance policies, but not their preferred environmental or social policies.

consumers.

Third, polarization may occur as a consequence of political differentiation among firms. This can occur regardless of whether firms strategically choose to differentiate along political lines or if this differentiation occurs as a consequence of pressure from consumers or investors. Hatred between the political left and the political right may be bad for society, but it can be good for both "left wing" and "right wing" firms.

Fourth, corporate actions that correlate with politics can have the same effect as political speech. That is, to the extent that there is a divergence of opinion about the value of corporate policies, firms can differentiate themselves by whether they take these policies. To the extent that this divergence of opinion corresponds to a pre-existing political divide, firms have an incentive to contribute to polarization along this divide. This has relevance in particular for controversial actions taken under the rubric of corporate social responsibility, such as labor or environmental policies, fair trade policies, support for military actions, or donations to the Salvation Army.

Before continuing, I want to make clear that the phenomenon described in this paper comes from the nature of the corporation as a business firm, and not from its nature as an assemblage of people. This issue may also exist in other contexts in which individuals or groups use political speech for instrumental reasons, to extract a price, rather than for more sincere ends, such as to advance an idea or a political candidacy. Examples might include politicians who encourage polarization so that their supporters will tolerate graft or a political parties that encourage polarization to strengthen the power of party elites.

The remainder of the paper is structured as follows. Section 2 explains the use of political speech by firms to differentiate their products. Section 3 explains the incentives of firms to encourage political polarization. Section 4 illustrates the theory through a historical example involving the Ford Motor Company. Section 5 explains the relationship of the theory to benefit corporations. Section 6 concludes.

2 Political positioning as product differentiation

Political positioning can act as a form of product differentiation. A firm that takes a political position can make its products more desirable to individuals sympathetic to that position, and less desirable to individuals who are offended as a consequence. Customers who are sympathetic will be willing to pay a premium to buy the firm's product, while offended customers will be willing to pay a premium to buy the competitor's product. As d'Aspremont et al. (1979) demonstrates, this can enable both firms to raise their prices and increase their profits. Thus, competitor firms with products that are not optimally differentiated may choose to differentiate on a political dimension.

The model of spatial competition was first introduced by Hotelling (1929). In Hotelling's model, two firms compete to sell an identical product to consumers located at different points along a line. These firms first choose their locations and subsequently choose their prices. Consumers choose according to both price and location; they incur a transportation cost when traveling to purchase the good. Consequently, the locations chosen by the firm influence the price that they can charge and the resulting profit that they make. d'Aspremont et al. (1979) study a slightly modified version of Hotelling's model, in which the transportation cost is assumed to be quadratic, rather than linear.[7]

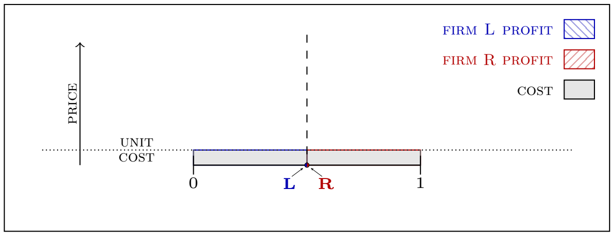
The model is depicted in Figure 1. The horizontal axis represents political preferences; customers are uniformly distributed on this axis between zero and one. The political stances of the two firms, L and R, are depicted as dots on the line. The division of the customers is denoted with a vertical dashed line; customers to the left of this line buy from firm L, while customers to the right purchase from firm R. The vertical axis represents the prices charged, with the dashed line indicating a constant unit cost. The firms' profits are simply their marginal revenues multiplied by their shares of the market.

Figure 1(a) depicts the case of firms that take the same political stance (in this example, 0.5). Because the firms are undifferentiated, they cannot charge a price above marginal cost; consequently, they make no profit (see Bertrand, 1883).

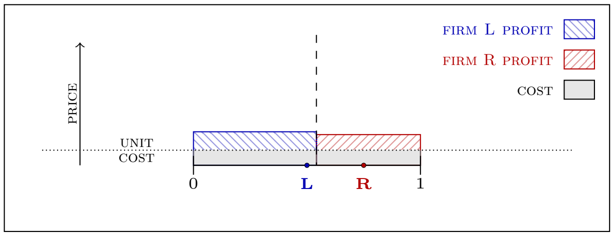
As shown by d'Aspremont et al. (1979), a firm can increase its profits by differentiating itself from its competitor. Figures 1(b)-(c) demonstrate the case of two differentiated firms. In Figure 1(b) the firms are slightly differentiated; firm L remains at 0.5, while firm R has moved to 0.75. Firm L is in the stronger position. Consequently, it charges a higher price and earns a higher profit than does firm R; however, both firms are now making a positive profit. Customers who are indifferent between their political stances (that is, who are located exactly in the middle) choose to buy from firm R, which retains a market share of over 45%.

Firms can even profit by taking a political stance disliked by all consumers, provided that consumers differ in their degree of dislike. In Figure 1(c) the firms are highly differentiated; firm R has moved all the way to 1.5, while firm L remains at 0.5. The consumer located exactly at 1 is indifferent between the two locations; all other customers strictly prefer 0.5 to 1.5. Nonetheless, this position is optimal for firm R, conditional on firm L remaining at 0.5. In equilibrium, firm R sells to half as many customers as firm L at half of the markup, and thus collects one-fifth of the profits. But overall profits have more than quadrupled, and firm R's profit is more than double what it was in Figure 1(b). This is because the dislike of firm R's location enables firm L to increase its prices, which in turn allows firm R to raise its prices in

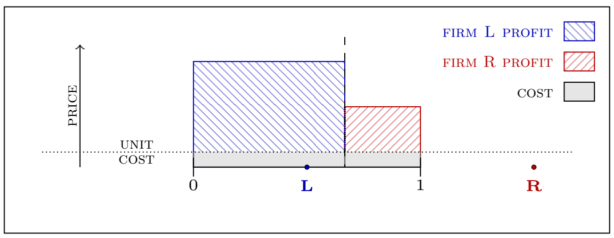
[7]Following d'Aspremont et al. (1979), I assume that customers face quadratic transportation costs. For simplicity, I also assume that customers (a) are uniformly distributed over the unit interval and (b) have sufficiently high demands so that all customers purchase the good. For more details see the mathematical appendix. I do not assume that firms have unlimited flexibility in choosing where to locate on this line; as discussed below, firms may face credibility constraints that limit the range of political positions that they can take. If the firms have unlimited flexibility to choose where to locate prior to setting their prices, they will locate at $-\frac{1}{4}$ and $\frac{5}{4}$ (or at 0 and 1 if constrained to the unit interval).



(a) Firms are at the same location; profits are zero.



(b) Firms are close to each other; profits are low.



(c) Firms are far apart; profits are high

Figure 1: Firm profits as a function of distance.

response.

This strategy—making a product unambiguously worse to differentiate itself from its competition—may be used in other contexts in which consumers react differently to damaged goods. For example, a food or drink producer may adulterate its product by adding a flavor that some customers strongly dislike and other customers barely taste. Or a soap manufacturer may sell its soap in ugly packages that part of the market dislikes, and the other part simply ignores. In these cases, the manufacturer who damages the good increases both its prices and those of its competitor.

This strategy of a firm damaging its goods to increase profits is similar in spirit to the strategy identified by Deneckere and McAfee (1996), in which a firm with a superior product offers a damaged version of the product to be sold at a lower price. However, these strategies are distinct in that the former is an example of product differentiation but not of price discrimination: here, each firm offers only a single product at a single price, and the increased profits come from pushing customers away to a competitor rather than from keeping customers (who might otherwise buy from that competitor). Furthermore, while the strategy identified by Deneckere and

McAfee could lead to a Pareto improvement (from the point of view of the consumers and the firm that utilized the strategy), the political differentiation strategy benefits both producers at the expense of all consumers in the market.

These observations about differentiation apply, of course, to differentiation among any dimension, whether it be the flavor of ice cream or the side taken in an international conflict. Product differentiation has long been studied with respect to attributes of the product itself, on dimensions such as location (Houde, 2012), flavor (Sullivan, 2020), and image (Sappington and Wernerfelt, 1985). The basic ideas of this literature are a standard part of the undergraduate curriculum in economics and in business strategy (Varian, 2019; McAfee, 2005). Product differentiation on political lines, on the other hand, is understudied. While political differentiation may fit into studies of branding,[8] a consequence of the limited attention on this problem is that the strategic incentives of firms to engage in political speech are little understood.[9]

Political differentiation does not require the firm to engage in explicit political speech. A firm can differentiate through corporate policies towards which customers have heterogeneous tastes. To differentiate on the dimension of carbon emissions, a firm need not make a political statement. A reduction in that firms' carbon footprint may have the same effect, if sufficiently publicized. Similarly, a firm may differentiate by polluting. While firms rarely advertise behavior harmful to the environment, non-profit organizations may publicize this activity in an attempt to change the firm's behavior. But if consumers differ in the extent to which they are affected by the pollution, the publicity may work to the firm's advantage by increasing the level of differentiation.

This may explain why activist led boycotts often fail to impact the boycotted firm.[10] Customers who care about a particular political issue may temporarily succeed in driving down a firm's demand by refusing to consume its products and purchasing, instead, from a competitor. However, the change in demand leads to a relative decline in prices of the boycotted firm, which in turn leads relatively-indifferent consumers to prefer the boycotted product. In absolute terms, prices (and profits) of each firm may increase.

The direct welfare effects of political differentiation are ambiguous. While differentiation may lead to an increase in prices, the effects on aggregate demand may be limited. It is possible that in an otherwise competitive environment, prices remain low enough that all customers continue to purchase the good. Furthermore, welfare

[8] See, for example, McWilliams and Siegel (2001), who study the use of corporate social responsibility as a means of differentiation.

[9] One notable exception is Mohliver et al. (2023) who describe conditions (low levels of social agreement and moderate to high levels of salience) under which firms will use 'corporate social responsibility' to differentiate horizontally.

[10] The evidence on whether boycotts harm or help firms is mixed. Friedman (1985) studies a number of boycotts in the 1970s and shows that most failed to acheive their goals. Studies of the impact on boycotts on stock prices have yielded mixed results (see Pruitt and Friedman, 1986; Pruitt et al., 1988; Davidson et al., 1995; Koku et al., 1997). For more, see also King (2008).

analysis must take the consumers preferences into account. As the example involving pollution illustrates, a firm can differentiate through activity that harms (or helps) all consumers, as long as these customers differ in the extent to which they are harmed.

3 The danger of political differentiation

As mentioned above, the welfare effects of political differentiation are unclear. It leads to an increase in prices, but need not lead to a decrease in demand, and it may lead to a product that consumers prefer (or not). The danger of political differentiation lies elsewhere: in a politically differentiated economy, profit maximizing firms benefit from increases in the level of political polarization.

One may think of political polarization as being captured by the transportation cost in Hotelling's original model: the greater the transportation cost, the more distant individuals are from people with different political views. Firm profits are increasing in this cost, provided that demand is high enough. Hence, an increase in political polarization increases firm profits.

This effect is not unlimited. When the transportation cost becomes too high, customers no longer purchase the good. That is, if polarization is too high, an extreme right-wing customer will not purchase even from a right-wing firm, and there may be unserved customers in the middle as well.[11] But the effect will hold whenever a small change in the level of polarization will not affect the size of a market. It may hold even if it does.

This analysis suggests that firms may have an incentive to contribute to polarization on the dimension of differentiation. This applies to both firms that actively differentiate from their competitors, and to firms that are differentiated by their competitors' actions. Whether this incentive creates a danger depends on two questions. First, do firms have the ability to influence the level of polarization on the relevant dimension? Second, is polarization harmful?

Polarization, as understood here, is a characteristic of a profile of preferences. Firms can influence the level of polarization only if they can affect consumer preferences. A long tradition assumes preferences to be unchanging, at least for the purpose of an economic model. At the same time, some models consider the possibility that preferences can depend on external factors, such as beliefs (Geanakoplos et al., 1989; Battigalli and Dufwenberg, 2009) and identity (Akerlof and Kranton, 2000).

There are several reasons to think that firms can affect the level of polarization on political dimensions. Firms may be able to influence consumer beliefs or the salience of identities upon which preferences might depend. For example, a firm's actions may lead to an increase in the perceived threat from political opponents. Or it might make members of a group feel emboldened or attacked, in either case strengthening

[11] One may imagine that such a condition would invite entry: a third firm could enter the market and sell to the extreme right-wing at monopoly prices.

group identity. Regardless of the theoretical reason, there is empirical support for this claim. Martin and Yurukoglu (2017) provide evidence that slanted cable news coverage can lead to political polarization.

How can firms increase the level of polarization? One alternative is through their statements; as will be shown below, Henry Ford published an inflammatory newspaper that seems to have increased societal polarization. Polarization can also occur through other publicized actions, such as firings of executives associated with a particular side of the dimension (Beutler, 2014). Alternatively, a television station identified with a particular party may wish to highlight more extreme members of the rival party, rather than moderates, to make the rival party (and rival television stations) seem more distant. A political party may engage in a similar strategy so as to increase the level of campaign contributions that it, and its candidates, receive.

Why is political polarization—understood roughly as an increase in political hatred—a bad thing? The answer to this question seems self-evident, and yet reasons are hard to elucidate. One argument may come from risk aversion; at least in a democratic society, there is uncertainty as to the winners of a given election. Polarization increases the expected harm of being on the losing side more than it increases the expected benefit of winning. This could lead to democratic backsliding as the cost of losing power starts to outweigh the benefits that come from respecting the rules of the political system.[12]

A related argument comes from Esteban and Ray (2008), who develop a theoretical model to show that conflicts in highly polarized societies tend to be very severe (albeit relatively rare). Of course, this may lead us to ask why severe conflict should be a bad thing. Though important, these questions need not be resolved here. It is sufficient to understand that the argument in this paper is conditioned on the undesirability of political polarization.[13]

In principle this effect may also exist in a non-political context. For example, premium ice cream manufacturers brands Häagen-Dazs and Ben and Jerry's are known to differentiate the market on a "smooth" to "chunky" flavor dimension (Sullivan, 2020). This analysis suggests that the firms would profit from increasing "flavor polarization"—that is, increasing mutual dislike by fans of smooth flavors for chunky ones, and vice versa. The necessary assumptions would become less plausible, however. It is probably very difficult for firms to influence the level of flavor polarization.[14] Furthermore, it is unclear whether such flavor polarization would be harmful. A change in preferences complicates welfare analysis.

[12] Graham and Svolik (2020) show a negative relationship between the degree of polarization and the level of support for democracy in the United States.

[13] However, if one thinks polarization is desirable, then the conclusions of this paper merely need be reversed.

[14] Marketing departments may do this when building brand identity.

4 The Ford Motor Company

I illustrate this argument with a historical example involving Henry Ford and the Ford Motor Company. I mostly draw on the biography of Ford provided by Watts (2005).

Henry Ford cultivated his image as a populist.[15] He portrayed himself as a common man. He famously doubled the wages of his workers to five dollars per day. In litigation concerning the building of his River Rouge factory, he testified that he was lowering prices "to give the benefits to users and laborers" rather than to make an "awful profit" (Henderson, 2009). In his era, Ford was a folk hero.

The populist message may have reflected his own political leanings, although some of it was likely calculated to enhance his image. As Raff and Summers (1987) point out, the five dollar day was designed to get lower worker turnover and improve morale, and generally led to an increase in profits. As Henderson (2009) points out, the River Rouge plant made it easier for Ford to compete with rival automakers.

Whether intentional or not, this image may have differentiated Ford from other American car manufacturers, who for various reasons could not or did not project a populist image. This differentiation would have made Ford automobiles more desirable to customers sympathetic to populist appeals. Ford would have been able to raise prices as a consequence. It is perhaps relevant that while Ford had little early competition in the economy car market, this was starting to change by the late 1910s, and so differentiation may have enabled Ford to keep his prices above competitive levels.

Having differentiated his business on a populist political dimension, the theory suggests that Ford would have an incentive to engage in polarizing behavior to separate populists from non-populists. As a reminder, differentiation and polarizing behavior are distinct. Differentiation separates the firms' political positions, and makes them more or less attractive to customers according to their individual preferences. Polarization, by contrast, changes the preferences of the customers, so that they care more intensely about the political positions of the firms. Ford's incentive, as suggested by the theory, was to engage in behavior that increased the level of dislike between populists and non-populists.

In 1919, Ford purchased a failing local newspaper, the *Dearborn Independent*, and turned it into his personal mouthpiece. He distributed the newspapers around the country using his dealerships as a network. At its peak in the 1920s, the *Dearborn Independent* had the second highest daily circulation of any paper in the United States.

The *Dearborn Independent* produced some of the most hateful propaganda of the 20th century. Starting early in 1920, Ford published a series of antisemitic articles, including material from the *Protocols of the Elders of Zion* (Ribuffo, 1980). It was

[15] It was recognized at the time that by cultivating his own image, he was cultivating that of his company (Lee, 1914).

nothing if not polarizing. His editor quit in protest, and a large number of prominent Americans criticized Ford for his antisemitism. But there were many voices in support, as well. It is worth noting that Ford remained a popular figure throughout the 1920s, and that the antisemitic campaign seems to have led to an increase in the sales of his newspaper. Ford later published many of these articles in a four-volume compendium entitled *The International Jew.*

It is impossible to calculate the harm caused by Ford's newspaper, but the measure may be in the millions of lives. In addition to stirring up antisemitic sentiment in the United States, it also had effects abroad.[16] It influenced a young Adolf Hitler, who gave Ford a favorable mention in *Mein Kampf* and awarded him the Grand Cross of the German Eagle in 1938. Baldur von Schirach, the leader of the Hitler Youth, testified at Nuremberg that "The decisive anti-Semitic book which I read at that time and the book which influenced my comrades... was Henry Ford's book, *The International Jew*; I read it and became anti-Semitic. In those days this book made such a deep impression on my friends and myself..." (International Military Tribunal, 1945, page 368).

Ford published *The International Jew* at a financial loss. This has often been taken as evidence of Ford's sincerity, in that he would not have lost money publishing the book otherwise.[17] In this respect, Ford may have been sincere; there is plenty of other evidence of his antisemitism both before and after the publication of *Dearborn Independent*. But the foregoing analysis suggests that his decisions may have been consistent with a profit maximizing strategy. Ford's losses from the sale of books might have been (at least partially) made up for in the ability to charge higher prices.

5 Credible commitment

A potential limitation on the ability of firms to differentiate themselves on political lines is that their speech may not be credible. A firm that wishes to differentiate its product through its flavor need only change the recipe. But a firm that takes a political position will not always be believed; members of the public may see it as a cheap ploy to get support from a particular constituency.

There are several mechanisms, however, that allow firms to credibly commit to a particular position. One potential mechanism is the "benefit corporation," a relatively novel corporate form that requires directors to balance profits against the public interest.[18] This structure is designed to allow a for-profit business to consider other

[16]The *International Jew* was translated into sixteen languages (Segal, 1996).

[17]For example, one historian writes: "by 1928 Ford had lost nearly five million dollars in these publishing ventures. Evidently, profit was not his motive." (Segal, 1996, p. 28.)

[18]The specific rules for benefit corporations vary across jurisdictions. For example, under the Delaware General Corporation Law, a "a public benefit corporation shall be managed in a manner that balances the stockholders' pecuniary interests, the best interests of those materially affected by the corporation's conduct, and the public benefit or public benefits identified in its certificate of

interests central to its mission, even when these other interests may conflict with the goal of maximizing shareholder returns. Another mechanism is to use a private enforcer. The "B-Lab Company," a non-profit organization, certifies businesses that commit to an organizational structure designed to balance profits with stakeholder interests.[19]

One can readily imagine organizations for which such a structure may be useful. For example, a group of journalists may wish to create a newspaper or television station with the goal of producing high quality journalism. Such an enterprise, however, requires investment, and investors expect financial returns. While the interests of the two groups may be aligned at the start, the firm may eventually be able to take advantage of its established reputation to increase profits by making sacrifices in terms of ethical standards. The benefit corporation structure makes it possible for investors to commit to maintaining quality standards and for the journalists to commit to maximizing returns conditional on the quality standards being maintained.

A third mechanism is illustrated by Ben and Jerry's, an ice cream company acquired in 2000 by Unilever PLC. As part of their acquisition agreement, Ben and Jerry's created an independent board of directors to oversee the ice cream company's "social mission" (Edmondson, 2014). This independent board limits Unilever's control over its subsidiary. This leads to a natural question: how much of a premium would Unilever have paid to gain full control over Ben and Jerry's?

The analysis above suggests that the amount may be low; for that matter, it may even be negative. There are at least two reasons for this. One reason is that the creation of the independent board made it easier for Unilever to signal that Ben and Jerry's would remain committed to its social agenda, regardless of whether this agenda happened to be in the interests of its corporate parent.

The second reason is that Unilever's differentiation strategies may vary across its subsidiaries. What works for a specific high end ice cream business may not work for a different brand under their corporate umbrella, such as one that produces soup or soap. In particular, Ben and Jerry's has generated a significant amount of controversy through its political agenda, which includes vocal opposition to Israeli policy and to NATO activity designed to forestall an anticipated Russian invasion of Ukraine (Sweney, 2022; Titcomb, 2022). While this structure may not fully insulate Unilever from legal and economic consequences stemming from the actions of its subsidiary,[20] it does provide at least some level of insulation, as Unilever may be able to credibly claim that it has no control over these actions of its subsidiary.

incorporation." 8 Del. C. 1953, §362(a).

[19]Specifically, B-Lab requires firms to "[d]emonstrate high social and environmental performance," "[m]ake a legal commitment by changing their corporate governance structure to be accountable to all stakeholders, not just shareholders, and achieve benefit corporation status if available in their jurisdiction," and "[e]xhibit transparency" by disclosing certain information (B-Lab, 2022).

[20]As the parent corporation, Unilever may still be subject to penalties to the extent that its subsidiaries actions violate anti-boycott laws. There is also a risk that other Unilever brands may be harmed by their association with Ben and Jerry's.

6 Conclusion

Corporations can increase profits by differentiating—or by being differentiated—on politics. Firms so differentiated benefit from increases in political polarization. If firms are differentiated on a common dimension, such as a left–right spectrum in national politics, then even a small ability of individual firms to influence the level of political polarization may have a large aggregate effect.

An implication of this is that conflict between corporate social responsibility and the maximization of shareholder value may be more apparent than real. That is, firms may be able to do well by doing good. But a policy of encouraging firms to do good may cause serious harm. Paradoxically, "corporate social responsibility" may be socially irresponsible.

A factor leading to the politicization of industries may be the focus of investment firms on environmental, social, and governance factors, commonly known as ESG. The potential impact of this approach is twofold. First, it may lead firms to engage in political speech or in actions correlated with politics.[21] Second, it may lead to a differentiation of investment products, by creating funds more and less attractive to liberal and conservative investors.[22]

Investment firm Strive Asset Management has taken a public stance against corporate social responsibility; it pressures firms to focus on value maximization, and to ignore the environmental, social, and governance goals promoted by competing fund managers. Strive founder Vivek Ramaswamy has argued that it is socially irresponsible for a corporation to have any goals other than shareholder value (Ramaswamy, 2021).

Paradoxically, Strive's focus on firm governance is largely indistinguishable from the ESG strategies of rival firms. It may increase the level of differentiation in industries where some, but not all, of the firms abandon their ESG goals.[23] It also differentiates Strive's products, making them more attractive to investors who dislike the current ESG trend, many of whom are conservatives.[24] The foregoing analysis suggests that Strive's strategy would be enhanced through actions that would increase the level of polarization on this ESG dimension, or on the correlated political dimension. Strive's founder, Vivek Ramaswamy, has done the former by writing a book against corporate "wokeness" (Ramaswamy, 2021), possibly the latter through

[21] Painter (2020) shows that Walmart's 2019 decision to stop selling ammunition led to a relative decline in store visits in heavily Republican areas and a relative increase in heavily Democratic areas. Other examples include corporate opposition to voting legislation (Gelles, 2021) and Republican criticism of corporate diversity training programs (Varn, 2022).

[22] Barzuza et al. (2020) present evidence that passive index fund managers such as Blackrock, Vanguard, and State Street have campaigned vigorously for ESG goals concerning board diversity and climate change in an attempt to compete for millennial investors. They argue that incentive to compete on these dimensions comes from the otherwise undifferentiated nature of their products.

[23] Recall that the effect described in this paper relies on differentiation; it will not exist when all firms choose the same political position.

[24] Conservative opposition to ESG investing is documented in Gelles (2023).

his more recent book against identity politics (Ramaswamy, 2022), and possibly both through his failed 2024 presidential candidacy as a Republican (Muzaffar, 2023).

I do not suggest any particular regulatory response to the problem identified in the paper, as such changes may do more harm than good. Regulation comes with large costs. Restrictions on corporate speech may impact both the ability of individuals to express themselves and of corporations to communicate information relevant to their businesses. Increasing corporate managers' accountability to shareholders may not help, as political differentiation and its consequent effect on polarization are in the interest of the firm shareholders. But a policy that encourages corporate social responsibility may make matters even worse.

One potential avenue would be to follow the line of the Michigan Supreme Court in *Dodge v. Ford Motor Company.*[25] Here, the court took seriously Ford's claims about not trying to maximize profits, and punished him for treating his firm as a charity. While Ford's claims were likely strategic and his activity profit maximizing, one could imagine a policy where courts take such statements at face value. This might force managers to admit, in court, that their activities are calculated to maximize profits; in turn, this admission might undercut the differentiation strategy. The problem, however, is that a manager might follow Ford's example, as Ford's loss in court may have strengthened his differentiation strategy. By paying a cost, he may have been able to signal to the public that he was serious about trying to keep his profits down.

It may also be worthwhile to study the implications of mandated disclosure. Firms can only differentiate through political activity if the activity is public.[26] Rules that mandate disclosure of corporate behavior can, in some circumstances, increase the level of differentiation. While it would be extreme to allow firms to hide their political donations from public scrutiny, it may be worth examining the wisdom of mandating that firms report their ESG progress in corporate accounting statements.

Rather than try to solve the problem at hand, we can try to understand it better. The strategy of political differentiation is little studied; its impacts on polarization even less so. At the same time, the problem of societal polarization is getting more and more attention. While there may not be an easy fix, a research program aimed at understanding this strategy may provide insights into combatting it.

The model of spatial competition (Hotelling, 1929; d'Aspremont et al., 1979) was used in this paper because it is the simplest and most basic model of product differentiation. The insight from it is that the strategy described is a problem if firms can profit from political differentiation and if that profit is increasing (at the relevant point) in the level of polarization. Differentiation should be less profitable in highly competitive environments; this may suggest that extreme political statements would be less common in those environments as well. Differentiation should be more profitable in markets where the firms products are largely interchangeable. However, this does lead to the complication that commoditized products are often sold in compet-

[25] *Dodge v. Ford Motor Company*, 204 Mich. 459, 170 N.W. 668 (Mich. 1919).

[26] By contrast, firms' efforts to engage in polarization need not be public.

itive environments. Smaller firms have been able to differentiate themselves through politics. For example, Black Rifle Coffee Company, created in 2014 with an explicitly pro-gun rights position, developed a following among conservatives and has grown to become a significant firm, and has partnered with NASCAR and the Dallas Cowboys (Jiménez, 2022).[27]

Several of the assumptions in the paper are made without a clear rationale. For example, we do not know the mechanism through which firms influence polarization (although there is evidence that, in practice, they can). Nor do we know why polarization is bad (although there is evidence that, in practice, it leads to bad things). The argument in the paper does not depend on a specific answer to these questions, such as a model of preferences or of polarized societies. Nonetheless, while such foundations are not necessary for this project, they are nonetheless important, and future research may fill these lacunae.

Mathematical Appendix

Let L and R be two firms selling an identical product that they can produce at zero marginal cost. Customers are uniformly distributed over the unit interval $[0, 1]$. Firms L and R make two choices; first, they simultaneously choose their locations, $\ell_{\mathrm{L}}, \ell_{\mathrm{R}} \in \mathbb{R}$; without loss of generality I assume that $\ell_{\mathrm{L}} \leq \ell_{\mathrm{R}}$. Following this, they choose prices $p_{\mathrm{L}}, p_{\mathrm{R}} \geq 0$. Customers have unit demands and receive a benefit $b > 0$ when consuming the good. Customers also pay a quadratic transportation cost td^2 to to travel distance d, where $t > 0$.

A customer located at point x who purchases from firm $k \in \{\mathrm{L}, \mathrm{R}\}$ at price p_k receives utility $u_{x,k}(p_k) = b - p_k - t(x - \ell_k)^2$. I assume that a customer will purchase the good if $\max_{k\in\{\mathrm{L},\mathrm{R}\}} u_{x,k}(p_k) \geq 0$, and will purchase from each firm with equal probability if $u_{x,\mathrm{L}}(p_{\mathrm{L}}) = u_{x,\mathrm{R}}(p_{\mathrm{R}})$. I assume that b is sufficiently high so that all customers purchase the good.

From this I calculate (subgame perfect) equilibrium prices and demands as a function of the firms' locations, and consequently the firm profits, leading to the following equations:

Demand for firm L: $D_{\mathrm{L}} = {}^1\!/\!_6(2 + \ell_{\mathrm{R}} + \ell_{\mathrm{L}})$.
Firm L's prices: $p^*_{\mathrm{L}} = c + {}^t\!/\!_3(\ell_{\mathrm{R}} - \ell_{\mathrm{L}})(2 + \ell_{\mathrm{R}} + \ell_{\mathrm{L}})$.
Firm R's prices: $p^*_{\mathrm{R}} = c + {}^t\!/\!_3(\ell_{\mathrm{R}} - \ell_{\mathrm{L}})(4 - \ell_{\mathrm{R}} - \ell_{\mathrm{L}})$
Firm L's profits: $\pi_{\mathrm{L}} = {}^t\!/\!_{18}(\ell_{\mathrm{R}} - \ell_{\mathrm{L}})(2 + \ell_{\mathrm{R}} + \ell_{\mathrm{L}})^2$
Firm R's profits: $\pi_{\mathrm{R}} = {}^t\!/\!_{18}(\ell_{\mathrm{R}} - \ell_{\mathrm{L}})(4 - \ell_{\mathrm{R}} - \ell_{\mathrm{L}})^2$.

The profit equations π_{L} and π_{R} are clearly linear in the transportation cost t. Firm

[27] As of April 28, 2023, Black Rifle Coffee Company's market capitalization is over one billion dollars.

R's best response to $\ell_{\text{L}} = 0.5$ is found by taking $\frac{\partial}{\partial \ell_{\text{R}}}\pi_{\text{R}} = {}^t\!/_{18}(3.5 - \ell_{\text{R}})(4.5 - 3\ell_{\text{R}}) = 0$, which holds when $\ell_{\text{R}} = 1.5$ or $\ell_{\text{R}} = 3.5$. But the second order condition is ${}^t\!/_{18}[-14.5 + 6\ell_{\text{R}})] < 0$ is satisfied only if $\ell_{\text{R}} < {}^{7.25}\!/_3 < 3.5$, thus $\ell_{\text{R}} = 1.5$.

Finally, the following table contains the values of p_{L}, p_{R}, π_{L}, π_{R}, and D_{L} for the case where $\ell_{\text{L}} = 0.5$ and $\ell_{\text{R}} \in \{0.5, 0.75, 1, 5\}$.

ℓ_{R}	p_{L}	p_{R}	π_{L}	π_{R}	D_{L}
0.5	c	c	0	0	0.5
0.75	$c + \frac{13}{48}t$	$c + \frac{11}{48}t$	$\frac{169}{1152}t$	$\frac{121}{1152}t$	$\frac{13}{24}$
1.5	$c + \frac{4}{3}t$	$c + \frac{2}{3}t$	$\frac{8}{9}t$	$\frac{2}{9}t$	$\frac{2}{3}$

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